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Supreme Court, U.S.
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92-1413

IN THE

Supreme Court of the United States

October Term, 1992

WALGREEN COMPANY, ATICO INTERNATIONAL INCORPORATED, f/k/a J & M ENTERPRISES, d/b/a ATICO, NEW ATICO INTERNATIONAL, LTD., d/b/a NEW ATICO, a/k/a ATICO,

Petitioners,

v.

PHILLIP OINESS and SUN PRODUCTS GROUP, INC.,

Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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Questions Presented

1. How should the conflict be resolved between the Court of Appeals for the Federal Circuit on the one hand, which has given special and total deference to the Colorado District Court's interpretation and application of Washington State Law, and several Regional Circuit Courts of Appeals on the other hand, which, following this Court's decision in *Salve Regina College v. Russell*, apply a *de novo* standard of review to Federal District Court determinations of state law?

2. Whether the Court of Appeals for the Federal Circuit, because it is a court of limited subject matter appellate review, should have a different degree of appellate review than that required by the regional Circuit Courts of Appeals on an issue properly raised on appeal but outside the area of law encompassed by the Federal Circuit's subject matter appellate jurisdiction?

3. Whether the Court of Appeals for the Federal Circuit erred in refusing to reverse the Colorado District Court's failure to take notice of and properly apply the statutory laws of the State of Washington on the issue of the right of a defunct Washington corporation to maintain a cause of action as the rule of decision in a civil action in a United States court, pursuant to 28 U.S.C. §1652?

4. Whether the Court of Appeals for the Federal Circuit, in refusing to reverse the Colorado District Court's failure to regard and properly apply the statutory laws of the State of Washington on the issue of the right of a defunct corporate entity to maintain a cause of action, failed to protect the essential role of the states in the federal system, pursuant to the Tenth Amendment to the United States Constitution?

Parties to the Proceeding Below

The parties named in the caption are the only parties to this action.

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PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITION FOR WRIT OF CERTIORARI

Petitioners hereby request that this Court issue a writ of certiorari to review a judgment of the United States Court of Appeals for the Federal Circuit entered October 8, 1992.

Opinions Below

The decision of the Federal Circuit Court of Appeals below is entitled *Phillip Oiness and Sun products Group, Inc. v. Walgreen Company, Atico International Incorporated, f/k/a J & M Enterprises, d/b/a Atico, New Atico International, Ltd. d/b/a New Atico, a/k/a Atico*. The result only is reported at 980 F.2d 742 (Fed.Cir. 1992). Pursuant to Federal Circuit Local Rule 47.8, the full text of the decision was not published.

The decision of the Colorado District Court below is entitled *Phillip Oiness and Sun products Group, Inc. v. Walgreen Company, Atico International Incorporated, f/k/a J & M Enterprises, d/b/a Atico, New Atico International, Ltd. d/b/a New Atico, a/k/a Atico*, reported at 774 F.Supp. 1277, 21 U.S.P.Q.2d 1654 (D.Colo. 1991).

Jurisdiction

The judgment sought to be reviewed was entered on October 8, 1992.

A rehearing was denied by the United States Court of Appeals for the Federal Circuit on December 4, 1992.

Jurisdiction exists for a review of the judgment of the United States Court of Appeals for the Federal Circuit under 28 U.S.C. §1254(1). The District Court below had jurisdiction premised upon, *inter alia*, 28 U.S.C. §1338(a).

Constitutional Provisions and Statutes Cited

Tenth Amendment to the United States Constitution:

> The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.

28 U.S.C. §1652:

> The laws of the several states, except where the Constitution or treaties of the United States or Acts of Congress otherwise require or provide, shall be regarded as rules of decision in civil actions in the courts of the United States, in cases where they apply.

RCW §23A.28.250 (Superceded):

> Survival of remedy after dissolution. The dissolution of a corporation either (1) by the issuance of a certificate of dissolution by the secretary of state, or (2) by a decree of court when the court has not liquidated the assets and business of the corporation as provided in this title, or (3) by expiration of its period of duration, shall not take away or impair any remedy available to or against such corporation, its directors, officers, or shareholders, for any right or claim existing, or any liability incurred prior to such dissolution if action or other proceeding thereon is commenced within two years after the date of such dissolution. Any such action or proceeding by or against the corporation may be prosecuted or defended by the corporation in its corporate name. The shareholders, directors and officers shall have power to take such corporate or other action as shall be appropriate to protect such remedy right or claim. If such corporation was dissolved by the expiration of its period of duration, such corporation may amend its articles of incorporation at any time during such period of two years so as to extend its period of duration.

RCW §23B.14.340:

> Survival of remedy after dissolution: The dissolution of a corporation either (1) by the issuance of a certificate of dissolution by the secretary of state, (2) by a decree of court, or (3) by expiration of its period of duration shall not take away or impair any remedy available against such corporation, its directors, officers, or shareholders, for any right or claim existing, or any liability incurred, prior to such dissolution if action or other proceeding thereon is commenced within two years after the date of such dissolution. Any such action or proceeding against the corporation may be defended by the corporation in its corporate name.

Other Statutes and Rules Cited[1]

28 U.S.C. §1254(1), 28 U.S.C. §1292, 28 U.S.C. §1295, 28 U.S.C. §1338(a), 35 U.S.C. §284, Federal Circuit Local Rule 47.8, RCW §23B.14.050(2)(e), RCW §23B.14.220, Rule 15, F.R.Civ.P., Rule 20(a), F.R.Civ.P.

Statement of the Case

A. General Background

In this action commenced on April 25, 1990, Phillip Oiness, an individual residing in the State of Washington ("Respondent Oiness"), and Sun Products Group, Inc., a Washington corporation ("Respondent Sun Products") charged Walgreen Company along with Atico International, Inc. and New Atico International, Ltd. (collectively "Petitioners") with, *inter alia*, infringement of U.S. Patent No. 4,544,203 ("the '203 patent") for a collapsible "headchair" designed for use while reclining at the beach, the park, or other outdoor locations, and with conspiracy to infringe the patent.

Respondent Oiness brought the patent infringement cause of action as the asserted owner of the '203 patent, and Respondent Sun Products as the asserted exclusive licensee from Respondent Oiness thereunder.

In addition, Respondents charged Petitioners with copyright infringement, but this charge was dismissed on Petitioners' motion for summary judgment. The District Court's dismissal of the copyright causes of action was affirmed by the Federal Circuit Court of Appeals.

The corporate plaintiff, Respondent Sun Products, was incorporated in the State of Washington on June 4, 1986 and on September 14, 1987 was administratively dissolved by the Washington Secretary of State. Respondent Sun Products was not reinstated within the two-year grace period following dissolution,

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[1] Full text cited in the Appendix

as then permitted by Washington State statute (RCW §23B.14.220). The grace period expired prior to the commencement of this suit.

A second "Sun Products Group, Inc.", a *separate entity* that presently exists as a Washington corporation, was incorporated on January 11, 1991 and *never made a party to the lawsuit* ["Sun Products II"].

B. Proceedings Below

The District Court specifically held that "[n]either Sun Products entity is a proper party to this suit". 774 F.Supp. at 1281, 21 U.S.P.Q.2d at 1657. This ruling by the District Court should have ended the matter. However, the District Court went further, stating: "however, Oiness, as a shareholder of Sun Products [I] with the consent of the other shareholders, may sue as a successor to the corporation". *Id.*

A few days before trial—namely, on April 3, 1991—Respondents made a motion pursuant to Rules 15 and 20(a) F.R.Civ.P. to permit the joinder as plaintiffs Respondent Oiness, Steven Younger and George Mayon as directors, trustees and shareholders of Sun Products as alternative plaintiffs. The motion was denied by the District Court on April 4, 1991. Accordingly, the two plaintiffs in the Colorado District Court were Respondent Oiness, suing as an individual, and a defunct, non-existent, dissolved corporation—to wit, Respondent Sun Products—which, in fact, had been dissolved more than two years prior to commencement of the suit.

A two-week trial commenced on April 8, 1991, after the conclusion of which the jury was given a number of special interrogatories to answer. The jury found the '203 patent to be valid and infringed, and awarded $50,000 in damages for lost profits in the retail market and $250,000 damages for lost profits in the premium market. The jury further found the infringement to be willful but refused to award exemplary damages.

Post-trial motions followed, including Petitioners' motion for J.N.O.V. and Respondents' motion for, *inter alia*, enhanced damages. The District Court granted Respondents' motion for treble damages and denied all other motions. The Amended Judgment was entered by the Colorado District Court on June 28, 1991.

Before the Federal Circuit Court of Appeals, Petitioners argued that the District Court improperly failed to grant Petitioners' motion for J.N.O.V. dismissing Respondent Sun Products and the claim for lost profits. There was no basis to award lost profits because Respondent Sun Products was not a proper party to the lawsuit. Respondent Oiness, the individual, never sold the patented headrest. No one suggested below that he ever did so.

In its Order and Opinion of June 28, 1991 on Petitioners' motion for J.N.O.V., the District Court acknowledged that Respondent Sun Products was not a proper party to the action. The District Court stated that Respondent Oiness as a shareholder of Sun Products, with the consent of the other shareholders, may sue as a successor to the corporation. 774 F.Supp. at 1281, 21 U.S.P.Q.2d at 1657. Petitioners asserted in both courts below that this was incorrect both on the facts and on the law, and that Respondent Sun Products should have been dismissed and the award of lost profits vacated.

Respondent Oiness was suing in his individual capacity *only* and not as director, trustee or shareholder of Respondent Sun Products. The District Court, in fact, specifically denied his motion to sue in a derivative capacity. Thus, when the District Court said that Respondent Oiness "may sue" as a successor to the corporation, it disregarded the fact that it had specifically denied Respondent Oiness the right to sue in a derivative capacity.

Moreover, under Washington State law, there was no claim which Respondent Oiness could bring on behalf of Respondent Sun Products. Respondent Sun Products was administratively dissolved on September 14, 1987. At that time, Washington law provided a two-year grace period for the commencement of suits on behalf

of dissolved corporations. (RCW §23A.28.250) But this action was not commenced until after that grace period had expired.

The Washington statute was amended in 1989, effective July 1, 1990, but only to be harsher on administratively dissolved corporations. Under the new law (RCW §23B.14.340), the grace period was eliminated entirely.

The legislative history of the amended statute states in pertinent part:

> Affirmative causes of action do not survive dissolution. . .

(Final Bill Report SSB 6389 (C 178 L 90)[2]

The District Court, in its decision of June 28, 1991, 774 F.Supp. at 1281, 21 U.S.P.Q.2d at 1657, cited *Zimmerman v. Kyte*, 53 Wash. App. 11, 765 P.2d 905 (Wash. App. 1988). Petitioners argued, however, that *Zimmerman* had no relation to this case. In *Zimmerman*, suit was commenced by the corporation *prior* to administrative dissolution and the defendant acquiesced to the substitution of the individual plaintiffs as trustees. Still further, *Zimmerman* was decided before the enactment of RCW §23B.14.340.

Respondents, in both courts below, cited *Pacesetter Real Estate, Inc. v. Fasules*, 53 Wash. App. 463, 767 P.2d 961 (Wash. App. 1989), which Petitioners argued was also inapplicable. In *Pacesetter*, the individual plaintiffs were permitted for two reasons to bring suit on behalf of their corporation, which was dissolved three and three-quarter years prior to the commencement of the action.

First, the *Pacesetter* court found potential *ultra vires* liability as a basis to grant standing to the individual plaintiffs. 767 P.2d

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[2] A copy is in the Appendix.

at 965. Before the District Court, potential *ultra vires* exposure was never raised by Respondent Oiness and does not exist.

Second, in *Pacesetter*, the individual plaintiffs were afforded standing to sue as trustees of their dissolved corporation. The court implied that the two-year statutory period in which to bring suit did not start to run so long as title to the property in question remained in the corporate name. *Id.* at 965-6. Before the District Court, Respondent Oiness asserted that he acquired rights to the '203 patent in 1986, almost four years before suit was initiated.

Finally, as mentioned previously, the Washington statute was amended as of July 1990, (a) *long before* plaintiffs brought their unsuccessful motion to amend the complaint to alter the capacity in which they brought suit, and (b) *after Zimmerman* and *Pacesetter* were decided, overruling these cases by legislative fiat, insofar as they relied on the language of the predecessor statute (RCW §23A.28.250). The amendment of RCW §23B.14.340 cut off the rights of trustees to sue in the name of a dissolved corporation, even within the two-year period.

Since Respondent Sun Products was an improper party, as the District Court found, 774 F.Supp. at 1281, 21 U.S.P.Q.2d at 1657, then the only party entitled to damages was Respondent Oiness in his individual capacity. However, Respondent Oiness never sold the patented product as an individual and no one ever contended that he had done so. Respondent Oiness, therefore, did not satisfy the criteria necessary for a party to receive lost profits. Petitioners asserted in the courts below that a party is entitled to lost profits only if it can prove: (1) the demand for the patented product; (2) absence of acceptable non-infringing substitutes; (3) plaintiff's manufacturing and marketing capability to exploit the demand; and (4) the amount of profits plaintiff would have made. *See, Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978).

There was no evidence in the record that Respondent Oiness as an individual had manufacturing or marketing capability to exploit the demand for the patented product. No evidence was offered at trial on the profit Respondent Oiness would have made in his

individual capacity, presumably because, as an individual, he never was in the headrest business. At best, Respondent Oiness would have been entitled to a reasonable royalty. 35 U.S.C. §284. Thus, Petitioners argued below, the award of lost profits was improper and should have been reversed.

Before the Federal Circuit Court of Appeals, Respondents cited, as alternatively controlling authority, RCW §23B.14.050(2)(e), a statutory provision generally applicable to voluntarily as well as administratively (i.e., involuntarily) dissolved corporations. RCW §23B.14.050(2)(e), which generally permits dissolved Washington corporations to maintain suit, was recodified from its predecessor statute in 1989 (effective July 1, 1990), and has not been amended since that time.

Petitioners stated to the Federal Circuit Court of Appeals that RCW §23B.14.050(2)(e), a *general*-application statute amended *earlier* in time, conflicted with the present RCW §23B.14.340, a statute applicable *specifically* to administratively dissolved Washington corporations and amended *later* in time.

Petitioners argued before the Federal Circuit Court of Appeals that well settled rules of statutory construction provide that, where two statutes concerning the same subject matter conflict, the statute of *specific* application controls, citing *Chelan Cty. Deputy Sheriffs' Ass'n v. Cty. of Chelan*, 45 Wash. App. 812, 725 P.2d 1001, 1007 (1986), *rev'd on other grounds*, 109 Wash. 2d 282, 745 P.2d 1 (1987); *Williams v. Pierce Cy.*, 13 Wash.App. 755, 537 P.2d 856 (1975); and that the *later*-amended statute controls over the *earlier*-amended statute, citing *State Ex Rel. Graham v. San Juan Cty.*, 102 Wash. 2d 311, 686 P.2d 1073, 1078 (1984); *Schneider v. Forcier*, 67 Wash.2d 161, 406 P.2d 935, 937 (1965); *State v. Ayer*, 9 Wash.2d 188, 193, 114 P.2d 168, 171 (1941).

Thus, Petitioners argued, RCW §23B.14.340 controlled, and served to cut off any rights of Respondent Sun Products (and by extension, Respondent Oiness as successor or trustee thereof) to

maintain this action.[3] As such, Petitioners asserted that the jury's award of damages to Respondents should not have been allowed to stand since Respondent Oiness, as an individual, was not entitled to lost profits.

C. The Decision of the Federal Circuit Court of Appeals

With respect to the arguments of Petitioners before the Federal Circuit Court of Appeals regarding the ability of Respondent Sun Products to maintain suit under the Washington statute, the Federal Circuit decided this issue only in passing, and in a very general manner. The Federal Circuit stated:

> Both plaintiffs and defendants raised several other objections to the jury's verdict and the trial court's conduct of the case. In all respects, this court rejects those objections and affirms the district court's judgment. This court only vacates and remands for reconsideration of the award of damages for lost profits and of the denial of prejudgment interest. (Slip Op. at A5).

When read in context of the entire decision rendered by the Federal Circuit Court of Appeals, the above-quoted statement concerning a remand "for reconsideration of the award of damages for lost profits" only concerns the *amount* of the jury's damages award, not whether damages should have been awarded at all. See, Slip Op. at A2, wherein the Federal Circuit stated:

> [T]his court detects no substantial evidence supporting the jury's damage award. On this record, no reasonable jury could have reached this result.

However, during oral argument before the Federal Circuit Court of Appeals, the issue of Washington State Law was discussed. In a dialogue between James Lowe, Respondents' counsel, and the court, the following exchange took place:

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[3] Of course, it is to be recalled that the District Court denied Respondent Oiness derivative capacity to bring suit just before trial.

Mr. Lowe:

> [T]he court found, we think properly, that the corporation [Sun Products, Inc.] did have the right to proceed through Mr. Oiness as he did.
>
> The acceptable alternative issue, your honor I think --

The Court:

> Even if it's a question of law, if it sounds like a reasonable interpretation of state law, it'd be kind of presumptuous for this court to second-guess or third-guess, wouldn't it.

Mr. Lowe:

> I, I would think so your honor. ...

REASONS FOR GRANTING THE WRIT

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The Decision Below is Directly in Conflict with This Court's Decision in *Salve Regina College v. Russell*, and that of Several Regional Circuit Courts that have followed *Salve Regina* since it was Decided, and in Order to Achieve Uniformity Among the Various Circuit Courts of Appeals as to the Standard of Review to be Applied to a District Court's Decision on a Controlling Issue of State Law, a Writ of Certiorari is Appropriate.

A six-to-three majority of this Court, in *Salve Regina College v. Russell*, 111 S.Ct. 1217, 1221 (1991) held that a court of appeals should review *de novo* a district court's determination of state law. The majority held as it did for several important policy reasons, among them:

> The obligation of responsible appellate jurisdiction implies the requisite authority to review independently a lower court's determinations.

> Independent appellate review of legal issues best serves the dual goals of doctrinal coherence and economy of judicial administration.

111 S.Ct. at 1221.

> [A]n appropriately respectful application of *de novo* review should encourage a district court to explicate with care the basis for its legal conclusions.
>
> * * *
>
> [D]eferential appellate review invites divergent development of state law among the federal trial courts even within a single State ... [A]ppellate courts that defer to the district courts' state-law determinations create a dual system of enforcement of state-created rights, in which the substantive rule applied to a dispute may depend on the choice of forum.

111 S.Ct. at 1222.

> The determination of state law ... is a legal question, and ... a party is entitled to a meaningful review of that decision just as he is of any other legal question in the case, and just as he would have been if the case had been tried in a state court.

111 S.Ct. at 1225.

The Federal Circuit Court of Appeals, however, ignored the above-quoted policy reasons of this Court supporting the mandate that *all* Circuit Courts of Appeals undertake an independent *de novo* review of district courts' determinations of state law.

It appears that the Federal Circuit Court of Appeals held the same views as that of the dissent in *Salve Regina*, in which Chief Justice Rehnquist stated:

> It ... makes perfect sense for an appellate court judge with no local experience to accord special weight to a local judge's assessment of state court trends.
>
> * * *
>
> That the experience of appellate judges should lead them to rely, in appropriate situations, on the experience of district judges who have practiced law in the State in which they sit before taking bench seems quite natural.

111 S.Ct. at 1226

The reasoning of the *Salve Regina* dissent, however, has no application here. In this case, a Federal District Court sitting in the State of Colorado erroneously applied what it believed to be the law of the State of Washington. The Federal Circuit Court of Appeals thus had no cause to rely on the particular expertise of the Colorado District Court on a question of Washington State law.

Contrary to the mandate imposed by this Court upon all Circuit Courts of Appeals in *Salve Regina*, the Federal Circuit Court of Appeals chose not to "second-guess or third-guess" the Colorado District Court's erroneous determination of Washington State law. Rather, the Federal Circuit erroneously applied a deferential standard of review, and did not reassess this question for itself.

In the *Salve Regina* case, subject matter jurisdiction in the district court was based upon diversity of citizenship and the law of Rhode Island applied to all substantive aspects of that case. *Salve Regina*, 111 S.Ct. at 1219. Here, subject matter jurisdiction in the district court was based upon a federal question (interpretation of the patent laws), and the law of the State of Washington applied to the single issue of whether the defunct corporate plaintiff, Respondent Sun Products, could maintain suit.

However, those Circuit Courts of Appeals following *Salve Regina* since it was decided, in cases where subject matter jurisdiction in the district court was based upon a federal question

and state law substantive issues had a bearing on the case, apply a *de novo* standard of review with respect to the district court's determinations of state law.[4]

Thus, the decision by the Federal Circuit Court of Appeals below is in conflict with the mandate of this Court in *Salve Regina*, and with the holdings of those Regional Circuit Courts of Appeals that have followed *Salve Regina* in cases where subject matter jurisdiction is based upon a federal question and the district court's determination of state law is reviewed on appeal. To resolve this conflict, the Petition for Certiorari should be granted.

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[4] *Bradley v. Pacific Southwest Bank, FSB*, 960 F.2d 502, 507 (5th Cir. 1992)[Bankruptcy action - "The *de novo* standard requires that this Court conduct an independent analysis of Texas homestead law."]; *Paramount Pictures Corp. v. Metro Program Network, Inc.*, 962 F.2d 775, 778 n.6 (8th Cir. 1992)[Copyright infringement action - "*Salve Regina College* applies to our review of all district court determinations of state law issues, whether they arise in diversity or as pendent claims. This is consistent with both the language and holding of *Salve Regina College*, which are broad."]; *Morton v. City of Little Rock*, 934 F.2d 180, 182 (8th Cir. 1991)[Federal Civil Rights action - "In accordance with the Supreme Court's recent directive in *Salve Regina*..., we review *de novo* the district court's interpretation of state law."]; *Murdock v. United States*, 951 F.2d 907, 911 (8th Cir. 1991), *cert. denied*, 112 S. Ct. 2996 (1992) [Action under Federal Tort Claims Act - "We are mindful of the dictates of *Salve Regina*... to review state law questions *de novo*, giving the district court ruling no deference."].

II

The Court of Appeals for the Federal Circuit, a Court of Limited Subject Matter Appellate Jurisdiction, Does Not Have a Different Degree of Appellate Review Than That Required by the Regional Circuit Courts of Appeals on an Issue Properly Raised on Appeal but Outside the Area of Law Encompassed by the Federal Circuit's Subject Matter Appellate Jurisdiction, and a Writ of Certiorari is Appropriate to Fulfill the Clear Intent of Congress with Respect to This Issue.

Prior to 1982, the Federal Circuit Court of Appeals did not exist. The Federal Circuit was created by Congress pursuant to the Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (1982) ("FCIA"). Its subject-matter appellate jurisdiction was enacted into law as 28 U.S.C. § 1295 and as amended 28 U.S.C. §1292.

It was Congress' intent in creating the Federal Circuit Court of Appeals to provide nationwide uniformity in the area of patent law. S.Rep. No. 275, 97th Cong., 2d Sess. 5, *reprinted in* 1982 U.S. Code Cong. & Admin. News 11, 15 ("Senate Report"); H.R.Rep. No. 312, 97th Cong., 1st Sess. 41 ("House Report"), and to eliminate the then-prevalent practice of forum-shopping depending upon which Regional Circuit Court espoused decisional law more favorable on patent law issues to the party first to win the race to the courthouse. *See*, *Id.*

In creating the Federal Circuit Court of Appeals, however, it was also the intent of Congress that the Federal Circuit function in the same manner as the Regional Circuit Courts of Appeals. House Report at 18, and that the Federal Circuit would be on line with the other Regional Circuits, that is, the Federal Circuit was not to be considered as a new tier in the judicial structure. Senate Report at 2-3, *reprinted in* 1982 U.S. Code Cong. & Admin. News at 13.

In recognition of this Congressional intent, the Federal Circuit Court of Appeals, early in its existence, "rule[d], as a matter of policy, that the Federal Circuit shall review procedural matters,

that are not unique to patent issues, under the law of the particular regional circuit where appeals from the district court would normally lie." *Panduit Corp. v. All States Plastic Mfg. Co., Inc.*, 744 F.2d 1564, 1574 (Fed.Cir. 1984). The standard of review on an issue of state law decided by a Federal District Court — a procedural matter — is not an issue unique to patent law, and is, in any case, mandated to be a *de novo* standard by *Salve Regina, supra.*

The Federal Circuit later stated that "this court decides *all issues, including nonpatent issues*, in a 'case' that is properly within its jurisdiction." *Christianson v. Colt Industries Operating Corp.*, 822 F.2d 1544, 1552 (Fed.Cir. 1987), *vacated and remanded on other gnds.*, 486 U.S. 800 (1988) (emphasis supplied). Here, the Federal Circuit panel below neglected to "decide" the state law issues properly before it.

Thus, contrary to clear Congressional intent, the mandate of *Salve Regina, supra.*, the practice of other Regional Circuit Courts of Appeals, and its own prior decisional policy, the panel of the Court of Appeals for the Federal Circuit erroneously gave special and total deference to the Colorado District Court's incorrect interpretation of Washington State law, refusing to review for itself, *de novo*, the issue which was properly raised on appeal.

III

The Decision Below Sanctioned a Departure by the Colorado District Court from the Dictates of 28 U.S.C. §1652 to take notice of and properly apply the pertinent laws of the State of Washington as the rule of decision in a civil action in a United States court, and a Writ of Certiorari is Necessary to Correct this Error.

28 U.S.C. §1652 provides:

> The laws of the several states, except where the Constitution or treaties of the United States or Acts of Congress otherwise require or provide, shall be

> regarded as rules of decision in civil actions in the courts of the United States, in cases where they apply.

The Colorado District Court below misapplied the clear statutory law of the State of Washington with respect to the ability of a defunct Washington corporation to maintain suit after it has been administratively dissolved. By not thoroughly reviewing and reversing this error on appeal, the Federal Circuit sanctioned the plain misapplication of Washington State law by the Colorado District Court.

Circuit Courts of Appeal "are not at liberty to accept or reject the legislative policy of [a] state ...; [they] are bound to apply state law as it is, not as ... [they] wish that it were." *Sheppard Federal Credit Union v. Palmer*, 408 F.2d 1369, 1372 (5th Cir. 1969).

The decision of the Federal Circuit Court of Appeals sanctioned a departure by the Colorado District Court from the dictates of 28 U.S.C. §1652 to take notice of and properly apply the pertinent laws of the State of Washington as the rule of decision in a civil action in a United States court, and a Writ of Certiorari is Necessary to Correct this Error.

IV

The Decision Below Sanctioned a Departure by the Colorado District Court from the Dictates of the Tenth Amendment to the United States Constitution to protect the essential role of the states in the federal system, and a Writ of Certiorari is Necessary to Correct this Error.

The Tenth Amendment to the United States Constitution provides:

> The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.

As this Court stated in *Santa Fe Industries, Inc. v. Green*, 430 U.S. 462, 479 (1976), "Corporations are creatures of state law ..."

As such, the right of a corporate entity to maintain suit should be governed by the law of the state under which that entity was created.

The statutory law of the State of Washington governing this right should have been applied by the Colorado District Court as written, and as intended by the Washington State Legislature. In failing to do so, the Colorado District Court completely disregarded the Washington statutory scheme, substituting its own judgment therefore. The Federal Circuit Court of Appeals, in its decision, sanctioned the actions of the Colorado District Court.

As stated by the Fifth Circuit Court of Appeals in *State of Texas v. United States*, 730 F.2d 339, 355 (5th Cir.), *cert. denied*, 469 U.S. 892 (1984):

> The role of the states in our federal form of government is a vital component of the Constitution's overall scheme of separation of powers, a scheme designed to protect individual liberty by preventing excessive concentration of power in any one governmental organ.

More emphatically, this Court in *Garcia v. San Antonio Metropolitan Transit Authority*, 469 U.S. 528, 549-50 (1985)[*citing*, *Baltimore & Ohio R. Co. v. Baugh*, 149 U.S. 368, 401 (1893)] stated:

> The Constitution of the United States ... recognizes and preserves the autonomy and independence of the States — independence in their legislative and independence in their judicial departments. [Federal] [supervision] over either the legislative or the judicial action of the States is in no case permissible except as to matters by the Constitution specifically authorized or delegated to the Unites States. Any interference with either, except as thus permitted, is an invasion of the authority of the State and, to that extent, a denial of its independence.

The Federal Circuit Court of Appeals sanctioned a departure by the Colorado District Court from the dictates of the Tenth Amendment to the United States Constitution to protect the essential role of the states in the Federal System, and a Writ of Certiorari is Necessary to Correct this Error.

Conclusion

The Writ of Certiorari requested herein to review the judgment of the United States Court of Appeals for the Federal Circuit should be granted to resolve a conflict which has been created between the Federal Circuit, on the one hand, and the Supreme Court and several Regional Circuit Courts of Appeals on the other hand — the decision underlying the Judgment also being contrary to Congressional intent and the Federal Circuit's own prior decisional policy as to the scope of its subject matter appellate jurisdiction; and to correct a clear departure from the mandates of 28 U.S.C. §1652 and the Tenth Amendment to the United States Constitution, which prohibit a re-writing by the Federal judiciary of the statutory scheme of the Washington State Legislature.

Respectfully submitted,

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APPENDIX

NOTE: Pursuant to Fed. Cir. R. 47.8, This disposition is not citable as precedent. It is a public record. The disposition will appear in tables published periodically.

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

91-1467,-1496

PHILLIP OINESS and
SUN PRODUCTS GROUP, INC.,

Plaintiffs/Cross-Appellants,

v.

WALGREEN COMPANY, ATICO INTERNATIONAL INCORPORATED, f/k/a J & M ENTERPRISES, d/b/a ATICO, NEW ATICO INTERNATIONAL, LTD, d/b/a/ NEW ATICO, a/k/a ATICO,

Defendants-Appellants.

DECIDED: October 8, 1992

Before MAYER, *Circuit Judge*, COWEN, *Senior Circuit Judge*, and RADER, *Circuit Judge*.

RADER, *Circuit Judge*.

DECISION

Oiness and Sun Products sued Walgreen Company and Atico International and New Atico International for infringement of United States Patent No. 4,544,203 (the '203 patent). *See Oiness v. Walgreen Co.*, 774 F. Supp. 1277, 21 USPQ2d 1654 (D. Colo. 1991). A jury found that Oiness owned the '203 patent, that defendants had not established the invalidity of the '203 patent, and that defendants willfully infringed the patent. The jury then awarded $300,00 in actual damages. The court

trebled damages and denied attorney fees and prejudgment interest. Upon review, this court finds substantial evidence to support most of the jury's findings. However, due to reversible errors affecting the damages award and the trial court's denial of prejudgment interest, this court *affirms-in-part, vacates-in-part, and remands.*

DAMAGES

This court reviews the jury's findings for reasonableness under the substantial evidence standard of review. *Orthokinetics v. Safety Travel Chairs*, 806 F.2d 1565, 1571, 1 USPQ2d 1081, 1084-86 (Fed. Cir. 1986). The district court instructed the jury to award the "net profits" Oiness would have made absent Walgreen's infringement. Under the unique facts of this case, that instruction likely misled the jury and caused reversible error. Moreover, this court detects no substantial evidence supporting the jury's damage award. On this record, no reasonable jury could have reached this result.

In a separate 1988 suit, the United States District Court for the Eastern District of Michigan awarded Oiness damages for a short-lived infringement of the '203 patent by B&E Sales Company. *Sun Prods. Group v. B&E Sales Co.*, 700 F. Supp. 366, 9 USPQ2d 2009 (E.D. Mich. 1988). Due to repeated references throughout this trial, the jury was acutely aware that Oiness previously had received damages from B&E Sales. In particular, Sun Products received damages for loss of "future profits" caused by B&E Sales' infringement.

The jury instructions advised the jury to award Oiness damages for any "net profits on sales Sun Products would have made absent the infringement." The instructions further defined "net profits" as "revenue from the sale of head rests less the cost of obtaining or manufacturing the head rest, cost of goods sold, and less all operating costs and expenses such as advertising, rent, salaries, promotions, et cetera." The

instructions did not distinguish between a lost profits award for B&E Sales' 1985-86 infringement and a lost profits award for Walgreens' 1987-90 infringement.

Without this distinction between damages for B&E Sales' 1985-86 infringement and Walgreen's 1987-90 infringement, the jury may well have read the term "net profits" to require reduction of the damages caused by Walgreen's infringement to account for damages awarded for B&E Sales' infringement. Regardless of the source of the jury's confusion, however, substantial evidence does not support the jury's damage award.

The jury awarded Oiness $300,00 in damages for injury to three distinct markets -- premium, advertising specialty, and retail. Plaintiffs' witnesses testified to over $5 million in retail damages, over $16 million in premium product damages, and $500,000 in advertising specialty damages, for a total of over $22 million. Walgreen's witness admitted that injury to the advertising specialty market alone ranged from $250,000 to $500,000. Walgreen's expert based this estimate on the cost of reintroducing the product and did not include any lost profits. On the record, this court finds no substantial evidence supporting the jury's damage award.

An offending notion woven into the fabric of this case is: Plaintiff recovered for lost profits in the suit against B&E Sales, therefore, plaintiff cannot recover for lost profits against Walgreen. To recover under lost profits, plaintiff must show that, absent infringement, it would have made the profits claimed. *King Instrument Corp. v. Otari Corp.*, 767 F.2d 853, 863, 226 USPQ 402, 409, (Fed. Cir. 1985), *cert. denied*, 475 U.S. 1016 (1986). Plaintiff must show a direct causal connection between the infringer's activities and the patent owner's lost profits. Sun Products met this burden in recovering lost profits for B&E Sales' 1985-86 infringement. In this suit against Walgreen plaintiffs certainly cannot recover for profits lost due to B&E's infringement. Plaintiffs may

recover, however, *all* profits lost due to Walgreen's 1987-90 infringement.

Because the jury instructions did not adequately distinguish between damages for the separate 1985-86 infringement and because substantial evidence does not support the jury's damages award, this court vacates that award and remands.

PREJUDGMENT INTEREST

This court reviews the district court's decision not to award prejudgment interest for abuse of discretion. *See Hughes Tool Co. v. Dresser Indus., Inc.*, 816 F.2d 1549, 1558, 2 USPQ2d 1396, 1404 (Fed. Cir. 1987). The district court did not grant prejudgment interest because Sun Products received damages in a prior case. *Sun Prods.*, 700 F. Supp. at 381-87, 9 USPQ2d at 2019-24. The court reasoned that prejudgment interest would give Sun Products a duplicative recovery. The jury, however, awarded $250,000 for injury to the premium sales market. Premium products are purchased in bulk to be given away as part of the sales promotion of other products. In *B&E Sales*, Sun Products recovered for retail sales, not premium sales. Therefore, an award for premium sales in the instant case would not overlap with the B&E award.

The district court said: "[t]he jury concluded that plaintiffs were only entitled to recover $300,000 for damages incurred after 1992." *Oiness*, 774 F. Supp. at 1285, 21 USPQ2D at 1660. In the same paragraph, the court relied on testimony that Walgreen's infringement affected premium sales from 1988 through 2002. *Id.* The district court's rationale for denying prejudgment interest does not account for the prejudgment interest on those premium sales. This failure amounts to an abuse of discretion. Therefore, this court vacates the trial court's denial of prejudgment interest and remands. *See Nickson Indus. v. Rol Mfg. Co.*, 847 F.2d 795, 800-01, 6 USPQ2d 1878, 1881-82 (Fed. Cir. 1988).

CONCLUSION

Both plaintiffs and defendants raised several other objections to the jury's verdict and the trial court's conduct of the case. In all respects, this court rejects those objections and affirms the district court's judgment. This court only vacates and remands for reconsideration of the award of damages for lost profits and of the denial of prejudgment interest.

COSTS

Each party shall bear its own costs.

UNITED STATES COURT OF APPEALS
For The Federal Circuit

91-1467,-1496

Phillip Oiness and
Sun Products Group, Inc.,

Plaintiffs/Cross-Appellants,

v.

Walgreen Company, Atico International Incorporated, f/k/a J & M Enterprises, d/b/a Atico, New Atico International, Ltd, d/b/a/ New Atico, a/k/a Atico,

Defendants-Appellants.

JUDGMENT

On Appeal from the U.S. District Court for the District of Colorado in Case No(s). 90-F-727

This Cause having been heard and considered, it is Ordered and Adjudged.

AFFIRMS-IN-PART, VACATES-IN-PART, and REMANDS

ENTERED BY ORDER OF THE COURT

DATED: OCT 8 1992

/S/ Francis X. Gindhart
Francis X. Gindhart, Clerk

ISSUED AS A MANDATE: December 11, 1992

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

91-1467

PHILLIP OINESS and
SUN PRODUCTS GROUP, INC.,

Plaintiffs-Appellees,

v.

WALGREEN COMPANY, ATICO INTERNATIONAL INCORPORATED, f/k/a J & M ENTERPRISES, d/b/a ATICO, NEW ATICO INTERNATIONAL, LTD, d/b/a/ NEW ATICO, a/k/a ATICO,

Defendants-Appellants.

ORDER

Before MAYER, Circuit Judge, COWEN, Senior Circuit Judge, and RADER, Circuit Judge.

A petition for rehearing having been filed by the APPELLANT, and a response thereto having been invited by the court and filed by the [*sic*]

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED.

The mandate will issue on December 11, 1992.

FOR THE COURT
FRANCIS X. GINDHART, Clerk

Dated: December 4, 1992

by s/s DIANE M. FRYE
Diane M. Frye
Chief Deputy Clerk

cc: PETER T. COBRIN
JAMES A. LOWE

OINESS V WALGREEN CO, 91-1467
(DCT - 90-F-727)

Note: Pursuant to Fed. Cir. R. 47.8, this order is not citable as precedent. It is a public record.

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLORADO

Civil Action No. 90-F-727

PHILLIP OINESS, an individual residing in the State of Washington, and SUN PRODUCTS GROUP, INC., a Washington corporation,

Plaintiffs,

v.

WALGREEN COMPANY, an Illinois corporation, ATICO INTERNATIONAL CORPORATION, a Delaware corporation, formerly known as J & M ENTERPRISES, d/b/a ATICO, and NEW ATICO INTERNATIONAL, LTD., a Delaware corporation (a wholly-owned subsidiary of ATICO INTERNATIONAL INCORPORATED) d/b/a NEW ATICO and a/k/a ATICO.

Defendants.

AMENDED JUDGMENT

PURSUANT TO and in accordance with the Order and Order for Injunctive Relief entered by the Honorable Sherman G. Finesilver, Chief Judge, on June 28, 1991, which are incorporated herein by reference as if fully set forth, it is

ORDERED that judgment is entered in favor of the plaintiff, Phillip Oiness, and against the defendants, above-named, for willful infringement of U.S. Patent No. 4,544,203 in the amount of Nine Hundred Thousand Dollars ($900,000.00), together with post-judgment interest at the rate of 6.0% (the legal rate on May 20, 1991, date of entry of the original judgment). It is

FURTHER ORDERED that as of June 28, 1991, at 2:00 P.M., defendants, as named above, their agents, servants, employees and attorneys and all persons in active concert or participation with them, are permanently enjoined and restrained from making, having made, using or selling head rests which infringe Claims 1, 2, and 3 of United States Letters Patent No. 4,544,203, including but not limited to, the Walgreen Head Rest which was at issue in this case. It is

FURTHER ORDERED that plaintiffs shall have their costs upon the filing of a bill of costs within ten (10) days of the date of entry of judgment.

DATED at Denver, Colorado, this 28th day of June, 1991.

FOR THE COURT:

s/s JAMES R. MANSPEAKER, Clerk
James R. Manspeaker, Clerk

APPROVED AS TO FORM:

s/s SHERMAN G. FINESILVER
Sherman G. Finesilver
Chief Judge

A11

FINAL BILL REPORT

SSB 6389

C 178 L 90

BY Senate Committee on Law & Justice (originally sponsored by Senators Nelson, Talmadge and Newhouse)

Revising the Washington business corporations act.

Senate Committee on Law & Justice

House Committee on Judiciary

SYNOPSIS AS ENACTED

BACKGROUND:

In 1989, the Legislature adopted the Revised Model Business Corporations Act, which goes into effect on July 1, 1990. The act, Chapter 23B RCW, replaces the current law, Chapter 23A RCW. The act tracks national developments in corporate law and keeps Washington in line with other major commercial states in the country.

SUMMARY:

The administration of the act is simplified and ambiguities are resolved.

The fee structure for corporate filings is amended to be consistent with current filing fees. Corporations may change their registered agent or office on their annual report without incurring an additional fee. Notice of annual license fees for foreign corporations will be sent to the corporation's registered office in Washington.

The Secretary of State may waive penalty fees when mitigating circumstances are presented; however, the Secretary of State has no discretion to administratively reinstate a dissolved corporation.

Dissolution procedures are consistent with current law. The 60-day delay in notice to a delinquent corporation is deleted. Affirmative causes of action do not survive dissolution; however, dissolved corporations retain the right to defend actions.

Notice to a corporation is effective when sent to the address or telephone number appearing on the current records of the corporation, if expressly authorized by the articles of incorporation or bylaws. Otherwise, notice is effective when received.

Amendments to articles of incorporation which change shareholder voting requirements for approval of a merger or sale of assets not in the ordinary course of business must be approved by the greater of the vote required for (1) such a merger or sale of assets; or (2) an amendment to the articles of incorporation.

The corporate authorization of federally chartered banks, savings institutions, and similar corporations is treated as being outside the act, consistent with current law.

Erroneous cross references are corrected, redundant sections are deleted and language inadvertently deleted is restored.

VOTES ON FINAL PASSAGE;

Senate	44	0
House	97	0

EFFECTIVE: July 1, 1990

28 U.S.C. § 1254. Court of appeals; certiorari . . .

Cases in the courts of appeals may be reviewed by the Supreme Court by the following methods:

(1) By writ of certiorari granted upon the petition of any party to any civil or criminal case, before or after rendition of judgment or decree . . .

28 U.S.C. § 1292. Interlocutory decisions

(a) Except as provided in subsections (c) and (d) of this section, the courts of appeals shall have jurisdiction of appeals from:

(1) Interlocutory orders of the district courts of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, and the District Court of the Virgin Islands, or of the judges thereof, granting, continuing, modifying, refusing or dissolving injunctions, or refusing to dissolve or modify injunctions, except where a direct review may be had in the Supreme court;

(2) Interlocutory orders appointing receivers, or refusing orders to wind up receiverships or to take steps to accomplish the purposes thereof, such as directing sales or other disposals or property;

(3) Interlocutory decrees of such district courts or the judges thereof determining the rights and liabilities of the parties to admiralty cases in which appeals from final decrees are allowed.

(b) When a district judge, in making in a civil action an order not otherwise appealable under this section, shall be of the opinion that such order involves a controlling question of

law as to which there is substantial ground for difference of opinion and that an immediate appeal from the order may materially advance the ultimate termination of the litigation, he shall so state in writing in such order. The Court of Appeals which would have jurisdiction of an appeal of such action may thereupon, in its discretion, permit an appeal to be taken from such order, if application is made to it within ten days after the entry of the order: *Provided, however*, That application for an appeal hereunder shall not stay proceedings in the district court unless the district judge or the Court of Appeals or a judge thereof shall so order.

(c) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction —

(1) of an appeal from an interlocutory order or decree described in subsection (a) or (b) of this section in any case over which the court would have jurisdiction of an appeal under section 1295 of this title; and

(2) of an appeal from a judgment in a civil action for patent infringement which would otherwise be appealable to the United States Court of Appeals for the Federal Circuit and is final except for an accounting.

(d)(1) When the chief judge of the Court of International Trade issues an order under the provisions of section 256(b) of this title, or when any judge of the Court of International Trade, in issuing any other interlocutory order, includes in the order a statement that a controlling question of law is involved with respect to which there is a substantial ground for difference of opinion and that an immediate appeal from that order may materially advance the ultimate termination of the litigation, the United States Court of Appeals for the Federal Circuit may, in its discretion, permit an appeal to be taken from such order, if application is made so that Court within ten days after the entry of such order.

(2) When any judge of the United States Claims Court, in issuing an interlocutory order, includes in the order a statement that a controlling question of law is involved with respect to which there is a substantial ground for difference of opinion and that an immediate appeal from that order may materially advance the ultimate termination of the litigation, the United States Court of Appeals for the Federal Circuit may, in its discretion, permit an appeal to be taken from such order, if application is made to that Court within ten days after the entry of such order.

(3) Neither the application for nor the granting of an appeal under this subsection shall stay proceedings in the Court of International Trade or in the Claims Court, as the case may be, unless a stay is ordered by a judge of the Court of International Trade or of the Claims Court or by the United States Court of Appeals for the Federal Circuit or a judge of that court.

(4)(A) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction of an appeal from an interlocutory order of a district court of the United States, the District Court of Guam, the District Court of the Virgin Islands, or the District Court for the Northern Mariana Islands, granting or denying , in whole or in part, a motion to transfer an action to the United States Claims Court under section 1631 of this title.

(B) When a motion to transfer an action to the Claims Court is filed in a district court, no further proceedings shall be taken in the district court until 60 days after the court has ruled upon the motion. If an appeal is taken from the district court's grant or denial of the motion, proceedings shall be further stayed until the appeal has been decided by the Court of Appeals for the Federal Circuit. The stay of proceedings in the District Court shall not bar the granting of preliminary or injunctive relief, where appropriate and where expedition is reasonably necessary. However, during the period in which proceedings

are stayed as provided in this subparagraph, no transfer to the Claims Court pursuant to the motion shall be carried out.

28 U.S.C. § 1295. Jurisdiction of the United States Court of Appeals for the Federal Circuit

(a) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction--

(1) of an appeal from a final decision of a district court of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, the District Court of the Virgin Islands, or the District Court for the Northern Mariana Islands, if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title, except that a case involving a claim arising under any Act of Congress relating to copyrights, exclusive rights in mask works, or trademarks and no other claims under section 1338(a) shall be governed by sections 1291, 1292, and 1294 of this title;

(2) of an appeal from a final decision of a District court of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, the District Court of the Virgin Islands, or the District Court for the Northern Mariana Islands, if the jurisdiction of that court was based, in whole or in part, on section 1346 of this title, except that jurisdiction of an appeal in a case brought in a district court under section 1346(a)(1), 1346(b), 1346(e), or 1346(f) of this title or under section 1346(a)(2) when the claim is founded upon an Act of Congress or a regulation of an executive department providing for internal revenue shall be governed by sections 1291, 1292, and 1294 of this title;

(3) of an appeal from a final decisions of the United States Claims Court;

(4) of an appeal from a decision of—

(A) the Board of Patent Appeals and Interferences of the Patent and Trademark Office with respect to patent applications and interferences, at the instance of an applicant for a patent or any party to a patent interference, and any such appeal shall waive the right of such applicant or party to proceed under section 145 or 146 of title 35;

(B) the Commissioner of Patents and Trademarks or the Trademark Trial and Appeal Board with respect to applications for registration of marks and other proceedings as provided in section 21 of the Trademark Act of 1946 (15 U.S.C. 1071); or

(C) a district court to which a case was directed pursuant to section 145 or 146 of title 35;

(5) of an appeal from a final decision of the United States Court of International Trade;

(6) to review the final determinations of the United States International Trade Commission relating to unfair practices in import trade, made under section 337 of the Tariff Act of 1930 (19 U.S.C. 1337);

(7) to review, by appeal on questions of law only, findings of the Secretary of Commerce under U.S. note 6 to subchapter X of chapter 98 of the Harmonized Tariff Schedule of the United States (relating to importation of instruments or apparatus);

(8) of an appeal under section 71 of the Plant Variety Protection Act (7 U.S.C. 2461);

(9) of an appeal from a final order or final decision of the Merit Systems Protection Board, pursuant to sections 7703(b)(1) and 7703(d) of title 5; and

(10) of an appeal from a final decision of an agency board of contract appeals pursuant to section 8(g)(1) of the Contract Disputes Act of 1978 (41 U.S.C. 607(g)(1)).

(b) The head of any executive department or agency may, with the approval of the Attorney General, refer to the Court of Appeals for the Federal Circuit for judicial review any final decision rendered by a board of contract appeals pursuant to the terms of any contract with the United States awarded by that department or agency which the head of such department or agency has concluded is not entitled to finality pursuant to the review standards specified in section 10(b) of the Contract Disputes Act of 1978 (41 U.S.C. 609(b)). The head of each executive department or agency shall make any referral under this section within one hundred and twenty days after the receipt of a copy of the final appeal decision.

(c) The Court of Appeals for the Federal Circuit shall review the matter referred in accordance with the standards specified in section 10(b) of the Contract Disputes Act of 1978. The court shall proceed with judicial review on the administrative record made before the board of contract appeals on matters so referred as in other cases pending in such court, shall determine the issue of finality of the appeal decision, and shall, if appropriate, render judgment thereon, or remand the matter to any administrative or executive body or official with such direction as it may deem proper and just.

28 U.S.C. § 1338. Patents . . .

(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents . . . Such jurisdiction shall be exclusive of the courts of the states in patent . . . cases.

28 U.S.C.§ 284. Damages.

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

Federal Circuit Local Rule 47.8. Opinions and orders of the court

(a) *Disposition of appeals.* -- Disposition of appeals may be announced in a published or unpublished opinion or order. "Published" means the opinion or order has been prepared and forwarded for publication in one or more commercial reports of decisions. "Unpublished" means an opinion or order that has not been prepared for publication in a commercial report of decisions.

(b) *Orders.* -- The action of the court in granting or denying motions, petitions, and similar actions may be announced in a published or unpublished order.

(c) *Unpublished opinions and orders.* -- Unpublished opinions and orders are those unanimously determined by the panel as not adding significantly or usefully to the body of law and not having precedential value. Opinions and orders designated as unpublished shall not be employed as precedent by this court, and may not be cited by counsel as precedent, except in support of a claim of res judicata, collateral estoppel, or law of the case.

(d) *Request for publication.* -- Any person may request that an unpublished opinion or order be reprepared and reissued for publication, citing reasons therefor. The request shall be made in a letter addressed to the clerk and filed in an original and three copies. Such request will be granted or denied by the panel that rendered the decision.

(e) *Public records.* -- All decisions, and opinions and orders accompanying decisions of this court shall be provided to the parties, shall be public records of the court, and shall be accessible to, and subject to comment and reproduction by, the public.

RCW §23B.14.050. EFFECT OF DISSOLUTION . . .

(2) Dissolution of a corporation does not:
(e) Prevent commencement of a proceeding by or against the corporation in its corporate name . . .

RCW §23B.14.220 REINSTATEMENT FOLLOWING ADMINISTRATIVE DISSOLUTION.

(1) A corporation administratively dissolved under RCW 23B.14.210 may apply to the secretary of state for reinstatement within two years after the effective date of dissolution. The application must:

(a) Recite the name of the corporation and the effective date of its administrative dissolution;

(b) State that the ground or grounds for dissolution either did not exist or have been eliminated; and

(c) State that the corporation's name satisfies the requirements of RCW 23B.04.010.

(2) If the secretary of state determines that the application contains the information required by subsection (1) of this section and that the name is available, the secretary of state shall reinstate the corporation and give the corporation written notice of the reinstatement that recites the effective date of reinstatement. If the name is not available, the corporation must file articles of amendment changing its name with its application for reinstatement.

(3) When the reinstatement is effective, it relates back to and takes effect as of the effective date of the administrative dissolution and the corporation resumes carrying on its business as if the administrative dissolution had never occurred.

Rule 15, F.R.Civ.P. Amended and Supplemental Pleadings

(a) Amendments. A party may amend the party's pleading once as a matter of course at any time before a responsive pleading is served or, if the pleading is one to which no responsive pleading is permitted and the action has not been placed upon the trial calendar, the party may so amend it at any time within 20 days after it is served. Otherwise a party may amend the party's pleading only by leave of court or by written consent of the adverse party; and leave shall be freely given when justice so requires. A party shall plead in response to an amended pleading within the time remaining for response to the original pleading or within 10 days after service of the amended pleading, whichever period may be the longer, unless the court otherwise orders.

(b) Amendments to Conform to the Evidence. When issued not raised by the pleadings are tried by express or implied consent of the parties, they shall be treated in all respects as if they had been raised in the pleadings. Such amendments of the pleadings as may be necessary to cause them to conform to the evidence and to raise these issues may be made upon motion of any party at any time, even after judgment; but failure so to amend does not affect the result of the trial of these issues. If evidence is objected to at the trial on the ground that it is not within the issues made by the pleadings, the court may allow the pleadings to be amended and shall do so freely when the presentation of the merits of the action will be subserved thereby and the objecting party fails to satisfy the court that the admission of such evidence would prejudice the party in maintaining the party's action or defense upon the merits. The court may grant a continuance to enable the objecting party to meet such evidence.

(c) Relation Back of Amendments. [Effective until Dec. 1, 1991. See, also subd. (c) below.] Whenever the claim or defense asserted in the amended pleading arose out of the conduct, transaction, or occurrence set forth or attempted to be set forth in the original pleading, the amendment relates back to the date of the original pleading. An amendment changing the party against whom a claim is asserted relates back if the foregoing provision is satisfied and, within the period provided by law for commencing the action against the party to be brought in by amendment that party (1) has received such notice of the institution of the action that the party will not be prejudiced in maintaining his defense on the merits, and (2) knew or should have known that, but for a mistake concerning the identity of the proper party, the action would have been brought against the party.

The delivery or mailing of process to the United States Attorney, or the United States Attorney's designee, or the Attorney General of the United States, or an agency or officer

who would have been a proper defendant if named, satisfies the requirement of clauses (1) and (2) hereof with respect to the United States or any agency or officer thereof to be brought into the action as a defendant.

(c) Relation Back of Amendments. [Effective on Dec. 1, 1991. See, also, subd. (c) above.] An amendment of a pleading relates back to the date of the original pleading when

(1) relation back is permitted by the law that provides the statute of limitations applicable to the action, or

(2) the claim or defense asserted in the amended pleading arose out of the conduct, transaction, or occurrence set forth or attempted to be set forth in the original pleading, or

(3) the amendment changes the party or the naming of the party against whom a claim is asserted if the foregoing provision (2) is satisfied and, within the period provided by Rule 4(m) for service of the summons and complaint, the party to be brought in by amendment (A) has received such notice of the institution of the action that the party will not be prejudiced in maintaining a defense on the merits, and (B) knew or should have known that, but for a mistake concerning the identity of the proper party, the action would have been brought against the party.

The delivery or mailing of process to the United States Attorney, or United States Attorney's designee, or the Attorney General of the United States, or an agency or officer who would have been a proper defendant if named, satisfies the requirement of subparagraphs (A) and (B) of this paragraph (3) with respect to the United States or any agency or officer thereof to be brought into the action as a defendant.

(d) Supplemental Pleadings. Upon motion of a party the court may, upon reasonable notice and upon such terms as are just, permit the party to serve a supplemental pleading setting forth transactions or occurrences or events which have happened since the date of the pleading sought to be supplemented. Permission may be granted even though the original pleading is defective in its statement of a claim for relief or defense. If the court deems it advisable that the adverse party plead to the supplemental pleading, it shall so order, specifying the time therefor.

Rule 20, F.R.Civ.P. Permissive Joinder of Parties

(a) Permissive Joinder. All persons may join in one action as Plaintiffs if they assert any right to relief jointly, severally, or in the alternative in respect of or arising out of the same transaction, occurrence, or series of transactions or occurrences and if any question of law or fact common to all these persons will arise in the action. All persons (and any vessel, cargo or other property subject to admiralty process in rem) may be joined in one action as defendants if there is asserted against them jointly, severally, or in the alternative, any right to relief in respect of or arising out of the same transaction, occurrence, or series of transactions or occurrences and if any question of law or fact common to all defendants will arise in the action. A plaintiff or defendant need not be interested in obtaining or defending against all the relief demanded. Judgement may be given for one or more of the plaintiffs according to their respective rights to relief, ad against one or more defendants according to their respective liabilities.

Supreme Court, U.S.
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No. 92-1413

In The

Supreme Court of the United States

October Term, 1992

WALGREEN COMPANY, ATICO INTERNATIONAL INCORPORATED, f/k/a J&M ENTERPRISES, d/b/a ATICO, NEW ATICO INTERNATIONAL, LTD., d/b/a NEW ATICO, a/k/a ATICO,

Petitioners,

v.

PHILIP OINESS and SUN PRODUCTS GROUP, INC.

Respondents.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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Questions Presented

I. Does the decision below conflict with *Salve Regina College v. Russell* so as to create non-uniformity among the circuits concerning the standard of review of state law questions, making a Writ of Certiorari appropriate?

II. Did the Court of Appeals for the Federal Circuit fail to properly review a state law question so as to make a Writ of Certiorari appropriate?

III. Did the decision below sanction a departure by the District Court from the proper notice and application of state law under 28 USC § 1652, making a Writ of Certiorari appropriate?

IV. Did the courts below in their determination and review of a state law issue violate the Tenth Amendment of the United States Constitution, making a Writ of Certiorari appropriate?

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STATUTES CITED

RCW § 23B.14.050:

Effect of Dissolution. (1) A dissolved corporation continues its corporate existence but may not carry on any business except that appropriate to wind up and liquidate its business and affairs, including:

(a) Collecting its assets;

(b) Disposing of its properties that will not be distributed in kind to its shareholders;

(c) Discharging or making provision for discharging its liabilities;

(d) Distributing its remaining property among its shareholders according to their interests; and

(e) Doing every other act necessary to wind up and liquidate its business and affairs.

(2) Dissolution of a corporation does not:

(a) Transfer title to the corporation's property;

(b) Prevent transfer of its shares or securities, although the authorization to dissolve may provide for closing the corporation's share transfer records;

(c) Subject its directors or officers to standards of conduct different from those prescribed in chapter 23B.08 RCW;

(d) Change quorum or voting requirements for its board of directors or shareholders; change provisions for selection, resignation, or removal of its directors or officers or both; or change provisions for amending its bylaws;

(e) Prevent commencement of a proceeding by or against the corporation in its corporate name;

(f) Abate or suspend a proceeding pending by or against the corporation on the effective date of dissolution; or

(g) Terminate the authority of the registered agent of the corporation.

STATEMENT OF THE CASE

In 1983 and 1984, Steven K. Younger ("Younger") and Rudolf A. Fiedelak ("Fiedelak") developed a headrest which received a United States Patent, and it was sold under the trademark "Headchair". It was sold in an attractively designed sleeve type copyrighted display box. Sun Global Enterprises, Inc. ("Sun Global") was formed to market the product. Investors funded the operation in 1984 after all rights in the product, package and trademark were assigned to Sun Global. Philip Oiness ("Oiness") became an investor and later a secured lender to the corporation. The Headchair head rest was sold successfully until B & E Sales, Inc. ("B & E") began to sell infringing products for a few months. A patent and trademark infringement judgment was obtained against B & E (which has been in bankruptcy proceedings since 1988 but there is no indication that creditors will receive any dividend) for damages in the retail market of $2,940,622. Sun Global defaulted on its loan to Oiness and thereafter transferred all patent and other rights to him. Oiness, Younger and Dr. George Mayon ("Mayon") then formed Sun Products Group, Inc. ("Sun Products") which received an exclusive license to the Headchair head rest and resumed sales in the retail market. In 1986 and early 1987 it also began selling the product in the premium product and the advertising specialty markets.

On April 26, 1987, Walgreen Company ("Walgreen"), after previous test marketing, began coast-to-coast sales of a copy of the Headchair head rest which they obtained from Taiwan through a trading company, Defendant Atico International, Incorporated f/k/a J & M Enterprises, d/b/a Atico, New Atico International, Ltd., d/b/a New Atico, a/k/a Atico, ("Atico"). Walgreen's annual purchases from Atico equal about seventy million dollars. An infringement notice was given by Respondents immediately to Walgreen and passed on by it to Atico after the nationwide advertising and sale of the head rest copy began in April, 1987. Nevertheless, Atico continued to supply and Walgreen continued to sell the head rest product for more than four years in over 1600 stores, conduct which almost completely destroyed Respondents' retail market and did completely destroy its sales in the lucrative premium product market and in the advertising specialty market.

Oiness, Younger, Mayon, and other witnesses testified that the damage by the Walgreen infringement was so severe that virtually all sales stopped, largely because the retail price of the "knock off" sold by Walgreen was less than the manufacturing cost of the Respondents' American made product. Therefore, within a few months, all employees were released and Oiness was reduced to an unpaid employee operating out of his garage and selling the product a few remaining loyal customers. At the time of the trial, Oiness was continuing to sell the product in the retail market to the Eddie Bauer chain and to some small stores in California.

Suit was filed for patent infringement and copyright infringement (because the initial Walgreen package bore

the identical photograph of a model demonstrating Respondents' product as had been prepared for and used on Respondents' box; later Walgreen began using a slightly different photograph but one which was similar to the original photograph). Petitioners paid off a photographer in an effort to defeat the copyright claims and therefore the District Court granted summary judgment to Petitioners on those claims. Petitioners then paid a substantial sum to Fiedelak for a purported patent license and for his "favorable testimony" in a further effort to defeat the patent claims but the jury found that Fiedelak had no rights in the patent. After a two-week trial beginning on April 8, 1991, the jury found the Respondents' patent to be valid and infringed by both Petitioners and found the infringement to be willful. The jury found against the Respondents on their claim of a civil conspiracy and therefore did not award exemplary damages which had been sought under the conspiracy theory. The jury found both Petitioners had willfully infringed the patent and awarded $50,000 for retail damages and $250,000 for premium product and advertising specialty damages. The District Court trebled the damages and awarded limited costs.

The District Court found that Sun Products was not a proper party to the suit because it had been administratively dissolved by the Secretary of State for the State of Washington for failure to file a periodic corporate report. However, the District Court found that Oiness, as a shareholder and director of Sun Products, with the consent of the other shareholders/directors Younger and Mayon, could sue as a successor to the corporation. At the time of administrative dissolution, Sun Products

owed a substantial sum to the Small Business Administration.

Walgreen and Atico appealed to the United States Court of Appeals for the Federal Circuit on the issue of liability and the Respondents cross-appealed on the basis of insufficient damages and failure to award pre-judgment interest. In its decision of October 8, 1992, the Court of Appeals for the Federal Circuit upheld the finding of liability and denied all of the appellate relief requested by Walgreen and Atico. The Court of Appeals for the Federal Circuit did, however, find that the damages were inadequate and not in accord with the substantial evidence in the case. It further held that pre-judgment interest should have been awarded. The case was remanded for reconsideration of the award of damages for lost profits and the determination of pre-judgment interest.

Walgreen and Atico filed a Petition for Reconsideration with the Court of Appeals arguing that the redetermination of damages should not be exclusively limited to the award of lost profits. That petition was denied on December 4, 1992. The case has been remanded to the District Court for reconsideration of damages and award of pre-judgment interest.

SUMMARY OF THE ARGUMENT

The District Court permitted Plaintiff Oiness to pursue the patent infringement claim of Plaintiff Sun Products in a representative capacity as shareholder and director after finding that the Sun Products corporation had been administratively dissolved by the Washington

Secretary of State. The District Court relied upon explicit statute and case authority from the State of Washington which establishes the right of even a dissolved corporation to proceed with a lawsuit and to collect its assets.

The Petitioners, Walgreen and Atico, seek to avoid the judgment for willful infringement by arguing that the corporation had no right to proceed with the suit. In particular, they argue that the Court of Appeals did not conduct a *de novo* review of Washington state law when, in fact, the issue was fully briefed in that court but still decided against them.

The Respondents here argue that the District Court decision carefully followed Washington state law, that the Court of Appeals properly reviewed the issue and both courts logically and practically had to reject the Petitioner's unfounded argument.

There is no demonstrated departure from the proper standard of review. There is no real or apparent split of authority between the Court of Appeals for the Federal Circuit and the other circuits. There is no constitutional issue. There is, in short, no basis for granting the Petition for Writ of Certiorari.

ARGUMENT

The ruling of the District Court permitting Oiness to pursue the patent infringement claims on behalf of the corporation was proper. The Court of Appeals for the

Federal Circuit properly upheld the decision of the District Court as to the effect of Washington state corporation law on the Respondents in this case.

I. The Decision below is not in conflict with the Court's decision in *Salve Regina College v. Russell* or decisions of other circuit courts since *Salve Regina* was decided.

The District Court ruled properly on the question of the effect on a cause of action of the administrative dissolution of a corporate plaintiff under the law of Washington. The District Court followed the Washington Business Corporation Act and all existing Washington case law. This was not a determination of unsettled state law or inarticulable intuition as was the case in *Salve Regina College v. Russell*, 111 S.Ct. 1217, 1222 (1991). The Court of Appeals for the Federal Circuit considered the same statutes and case law presented in briefs which exhausted the state law inquiry and the appellate court simply ruled against the Petitioners. It is improper to fault the Court of Appeals for the Federal Circuit for improperly reviewing the matter based upon a one sentence question by a single judge during oral argument. The decision of the Court of Appeals does not reflect a failure or refusal to conduct a *de novo* review but merely found that the Petitioners state law argument was without merit: "In all respects, this court rejects those objections and affirms the district court's judgment." (Petition at A5)

In the District Court, Walgreen and Atico argued that the failure to file a corporate report within the time

period required and the subsequent administrative dissolution of the corporation meant that no action could be brought against the Petitioners egregious infringement. Carried to its logical conclusion, the argument advocates that all corporate property rights simply evaporate with the administrative dissolution of the corporation with a subsequent loss of rights to the shareholders and creditors but a windfall gain to debtors and those who have tortiously wronged the corporation (as Walgreen and Atico have done in this case). This is an offending argument which is contrary to case law in Washington and is explicitly rejected by the very corporate code statutes upon which Walgreen and Atico seek to rely.

The Washington Business Corporation Act (WBCA), revised in 1989, permits Oiness to prosecute this suit. The Revised Code of Washington (RCW) 23B.14.050 provides, "A dissolved corporation continues its corporate existence . . . (2) dissolution of a corporation does not: (a) transfer title to the corporation's property . . . (e) prevent commencement of a proceeding by . . . the corporation in its corporate name." (R-A988, A989). This revised statute retained the post-dissolution remedies of *Pacesetter Real Estate v. Fasules*, 53 Wash. App. 463, 767 P.2d 961 (1989) and *Zimmerman v. Kyte*, 53 Wash.App. 11, 765 P.2d 905 (1989). RCW 23.B14.340 both permits lawsuits by the corporation within two years of dissolution and lawsuits thereafter brought by the directors, shareholders and officers on behalf of the corporation and in its corporate name (R-A991). *Pacesetter, supra*, held that directors of a dissolved corporation, as trustees for the benefit of the shareholders and creditors, were entitled to bring an

action more than two years after a corporation is administratively dissolved. Additionally, *Zimmerman, supra* held that claims of a corporation which has been administratively dissolved devolved to the shareholders who could bring a suit on behalf of the corporation or in place of a corporation. The Petitioners quote from a legislative bill summary as if that were the law, when the foregoing language of the statute clearly shows the "summary" to be incorrect. There is no need to review legislative history when the statute is clear.

The District Court properly followed statute and case law of Washington and rejected the illogical and speculative interpretation urged by Walgreen and Atico. Patent rights, a license to a patent and a right to sue for infringement of those rights are property which does not simply vanish when a corporation fails to file appropriate forms. Indeed the willful infringement of Walgreen and Atico created the problems of the corporation which led to its reduced manpower and its subsequent filing oversight in this matter. The arguments of Walgreen and Atico advocate that an infringer should be able to get away with willful patent infringement if they inflict a serious enough wound on their victim. This argument offends common sense and common decency. Walgreen and Atico should not request this Court to deny Sun Products' shareholders and creditors the benefit of Sun Products assets.

Oiness individually and in his representative capacity on behalf of Sun Products met all of the requirements of *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 415 F.2d 1152, 1156 (6th Cir. 1978) to permit the award of lost profits. The Respondents established (1) demand for the

patented product, (2) absence of acceptable non-infringing substitutes, (3) Respondents' manufacturing and marketing capability to exploit the demand, and (4) the amount of profits the Respondents would have made. The jury found no credible evidence of available non-infringing substitutes. The uncontradicted evidence at trial was that the Respondents would have sold significant quantities of their product at substantial profit in three separate markets. About 900,000 units had been sold before the Walgreen/Atico infringement. Respondents owned the manufacturing tools and had the financial resources necessary to meet any anticipated demand but for the infringement. Walgreen and Atico undercut the price and destroyed the distribution network so thoroughly that little of the product could be sold. Oiness, after dissolution of Sun Products (of which he was not aware until after suit was filed) actually continued to operate the corporation after its dissolution and met what little retail demand was left after the willful infringement by Walgreen and Atico. The Petitioners do not, in their Petition for Certiorari, attack the decision of the Court of Appeals for the Federal Circuit on this issue.

II. The Court of Appeals for the Federal Circuit did not depart from proper practice in reviewing the District Court's decision.

A review of the decision of the Court of Appeals for the Federal Circuit does not support the speculative argument of Petitioners that the appellate review was improper or insufficient. It should be presumed that an appellate review was properly conducted except where the decision makes it clear that significant error occurred.

Here the Petitioners can cite nothing in the decision suggesting an improper scope of review, lack of *de novo* review or an improper decision. There is no logical or legal basis for the Petitioners interpretation of Washington corporation law to contradict the District Court's determination of a settled state law issue. It is not surprising that the Court of Appeals dealt with it simply.

As has been declared many times, this Court's jurisdiction by writ of certiorari should be exercised sparingly and only in cases of particular gravity and general importance or to secure a uniformity of decision. *Hamilton Shoe Co. v. Wolf Brothers,* 240 U.S. 251, 258 (1915). No such cause exists in this case to warrant exercise of this Court's jurisdiction. The Court does not exercise its jurisdiction by writ of certiorari merely to secure uniformity of decisions among the circuits and has confirmed the right of circuit courts of appeal to exercise independent judgment on matters controlled by state law. "As to questions controlled by state law, however, conflict among circuits is not of itself a reason for granting a writ of certiorari." *Richlin v. N.Y. Life Ins. Co.*, 304 U.S. 202, 206 (1938). Here there is not even a conflict among the circuits on a question of state law. Instead the Petitioners simply disagree with every court which has considered this particular state law question, including the Court of Appeals, the District Court and the Washington Court of Appeals.

The Court of Appeals for the Federal Circuit and not this Court has the normal and primary responsibility, given by Congress, for reviewing all matters concerning patent infringement. See, *e.g., NLRB v. Pittsburgh Steamship Co.*, 340 U.S. 498, 502 (1951) where an analogous special appellate structure existed. In such cases, forum

shopping is impossible and conflicts in decisions rare. This Court noted that certiorari is granted only "in cases involving principles, the settlement of which is of importance to the public as distinguished from that of the parties, and in cases where there is a real and embarrassing conflict of opinion and authority between the circuit courts of appeal." *Id.*

III. The District Court followed 28 U.S.C. § 1652 in applying Washington state law and the Appellate Court properly affirmed the decision.

The Petitioners appear to intentionally misapply Washington corporation law as discussed above. It is they and not the courts reviewing this matter who want to apply state law as they wish it were. The decision of the District Court was well founded on statute and case law of Washington and properly rejected the fanciful argument of Walgreen and Atico to the effect that corporate property vanishes with administrative dissolution of a corporation. Having appropriated the property of Sun Products for their own substantiai benefit, Walgreen and Atico naturally wish to argue that Sun Products and its shareholders and directors cannot pursue them for it. The simple fact is that Petitioners' view of the law is wrong.

This issue of the effect of Washington corporation law on this suit and these Respondents was argued in the trial court, decided against the Petitioners and argued in the appellate court but the Petitioners here were unable to persuade either court that their extreme view of Washington law had any logical or legal support. It was therefore rejected. Under these circumstances, the Court of

Appeals for the Federal Circuit can hardly be faulted for affirming the decision of the District Court.

IV. The District Court and the Court of Appeals did not violate the Tenth Amendment to the United States Constitution.

The Petitioners' same tired argument has been wrapped in constitutional garb for this point but it contains no more substance than before. Clearly, the District Court carefully considered the case law and statutes of the State of Washington. It did not substitute its own scheme for Washington corporation law. Any argument to the contrary is false. The Washington Code specifically provides that "a dissolved corporation continues its corporate existence but may not carry on any business except that appropriate to wind up and liquidate its business and affairs, including: (a) Collecting its assets . . . (e) Doing every other act necessary to wind up and liquidate its business and affairs. (2) *Dissolution does not . . . (e) Prevent commencement of a proceeding by* or against *the corporation in its corporate name.*" (Emphasis added.) The Petitioners' irrational position was not accepted by the District Court or by the Court of Appeals for the Federal Circuit.There exists no reasonable argument that the decision of the District Court as affirmed by the Court of Appeals for the Federal Circuit in any way infringes the 10th Amendment rights of the State of Washington. *Salve Regina College* pointed out that:

> Independent appellate review necessarily entails a careful consideration of the district

> court's legal analysis, and an efficient and sensitive appellate court at least will naturally consider this analysis in undertaking its review. . . . If the Court of Appeals finds the District Court's analytical sophistication and research have exhausted the state law inquiry, little more need be said in the appellate opinion.

Salve v. Russell, supra at 111 S.Ct. 1221. Thus, the decision of the Court of Appeals fully complied with this Court's requirements.

CONCLUSION

The Petition for a Writ of Certiorari should be denied because there is no real conflict between the Court of Appeals for the Federal Circuit and the Supreme Court or the other regional Circuit Courts of Appeal. The Court of Appeals followed the requirements of *Salve Regina College*. The District Court and the Court of Appeals for the Federal Circuit merely rejected an unsound argument concerning the meaning of settled Washington state law. There is no basis for reversing the decision of these two courts. There is no conflict between the circuits to resolve. There is no constitutional question at issue. The Petition for a Writ of Certiorari is merely a weak attempt of Walgreen and Atico to avoid paying the natural consequences of their deliberate outrageous behavior over many years. It is an unjust cause on which this Court

should not waste its time. The Petition for a Writ of Certiorari should be denied.

Respectfully submitted,

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On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

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REPLY BRIEF IN FURTHER SUPPORT OF PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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EDITOR'S NOTE

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I. It is clear that the Federal Circuit Court of Appeals below, contrary to this Court's decision in *Salve Regina College v. Russell*, and that of several Regional Circuit Courts that have followed *Salve Regina* since it was Decided, erroneously conducted a Deferential Standard of Review of the District Court's determination of Washington State Law. 2

II. Petitioners Respectfully Request that this Court Not Presume that Appellate Review was Properly Conducted by the Federal Circuit Court of Appeals. 8

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No. 92-1413

IN THE

Supreme Court of the United States

October Term, 1992

WALGREEN COMPANY, ATICO INTERNATIONAL INCORPORATED, f/k/a J & M ENTERPRISES, d/b/a ATICO, NEW ATICO INTERNATIONAL, LTD. d/b/a NEW ATICO, a/k/a ATICO,

Petitioners,

v.

PHILLIP OINESS and SUN PRODUCTS GROUP, INC.,

Respondents.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

---

REPLY BRIEF IN FURTHER SUPPORT OF PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Introduction

Petitioners herein submit this Reply Brief in further support of their Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit. This Reply serves solely to respond to Respondents' misinterpretation of the record, pertinent statutes and legal precedent contained in their Brief in Opposition to Petition for Writ of Certiorari.

ARGUMENT

I

It is clear that the Federal Circuit Court of Appeals below, contrary to this Court's decision in *Salve Regina College v. Russell*, and that of several Regional Circuit Courts that have followed *Salve Regina* since it was Decided, erroneously conducted a Deferential Standard of Review of the District Court's determination of Washington State Law.

Respondents do not contest that a Court of Appeals should review *de novo* a District Court's determination of state law. *Salve Regina College v. Russell*, 111 S.Ct. 1217, 1221 (1991). The Federal Circuit Court of Appeals, however, failed to comply with the directives of *Salve Regina*, contrary to the appellate procedure undertaken by those Regional Circuit Courts of Appeals that have followed *Salve Regina* since it was decided, in cases where subject matter jurisdiction in the District Court was based upon a Federal question and State law on substantive issues had a bearing on the case. (Pet.Cert., pp.13-14).

Respondents, moreover, concisely encapsulate the clear error made by the Colorado District Court in its determination of the substantive law of the State of Washington, as follows:

> The District Court found that *Sun Products was not a proper party to the suit* because it had been administratively dissolved by the Secretary of State for the State of Washington for failure to file a periodic corporate report. *However, the District Court found that Oiness, as a shareholder and director of Sun Products, with the consent of the other shareholders/directors Younger and Mayon, could sue as a successor to the corporation.* (Opp.Brf., p.5) (Emphasis Added).

Petitioners have shown, in exhausting detail, that the decision of the Colorado District Court, in allowing the action "by Oiness as successor to Sun Products" to continue, was based upon a clear

misapplication of the controlling corporate law of the State of Washington. (Pet. Cert., pp.5-10). By refusing to review the District Court's decision *de novo*, the Federal Circuit Court of Appeals compounded the error.

Respondents, however, assert that:

> This was not a determination of unsettled law or inarticulable intuition as was the case in *Salve Regina* ... (Opp. Brf., .8).

Respondents' first comment is incorrect, the second inapposite.

Research by Petitioners found *no case* rendered by the Supreme Court for the State of Washington interpreting the controlling statute, RCW §23B.14.340 or its predecessor statute RCW §23A.28.250 (superseded). *Pacesetter Real Estate v. Fasules*, 53 Wash. App. 463, 767 P.2d 961 (1989) and *Zimmerman v. Kyte*, 53 Wash. App. 11, 765 P.2d 905 (1989), cited by Respondents, are intermediate appellate decisions interpreting the *former* RCW §23A.28.250 (superseded). Thus, the meaning and interpretation of RCW §23B.14.340 is far from "settled".

The "inarticulable intuition" of the district court as expressed in *Salve Regina, supra.*, 111 S.Ct. at 1220, has no application to the present case, one way or the other. The Rhode Island District Court in *Salve Regina* purported therein to have a "feel for what the Rhode Island Supreme Court will or won't do" with respect to its interpretation of state contractual law. *Id.* Here, in contrast, the Colorado District Court could not have a "feel" for how the Supreme Court for the State of Washington would interpret RCW §23B.14.340 under the facts of this case, as it had no discernable prior experience with Washington State Law. This is an even more important reason why the Federal Circuit Court of Appeals should have applied a *de novo*, rather than a deferential, standard of review of the Colorado District Court's determination of Washington State Law. However, it did not do so.

Respondents further assert that:

> It is improper to fault the Court of Appeals for the Federal Circuit for improperly reviewing the matter based upon a one sentence question by a single judge during oral argument. The decision of the Court of Appeals does not reflect a failure or refusal to conduct a *de novo* review but merely found the Petitioners' state law argument was without merit ... (Opp. Brf., p.8).

First, the decision of the Federal Circuit below (Pet. Cert., pp.A1-A5) provides *no guidance whatsoever* as to its reasoning process in affirming the Colorado District Court's determination of Washington State Law. Second, the "one sentence question by a single judge during oral argument" is the only source the parties, or this Court, have to determine this reasoning process. This "one sentence question" shows that the Federal Circuit engaged in a deferential standard of review of the Colorado District Court's determination of Washington State Law. This was improper.

Respondents further assert that Petitioners have somehow concocted a fallacious argument that:

> All corporate property rights simply evaporate with the administrative dissolution of the corporation with a subsequent loss of right to the shareholders and creditors but a windfall gain to debtors and those who have tortiously wronged the corporation ... (Opp. Brf., p.9).

Quite simply, this is not a concocted argument, but *the law* of the State of Washington. RCW §23B.14.340 is a statute bearing upon the *sui generis* "capacity" of a dissolved Washington corporation. *Columbia River Service Corp. v. Gilman*, 751 F.Supp.1448 (W.D. Wash. 1990). The Washington Statute does not concern itself with the substantive property rights/obligations of a defunct Washington corporation, but whether a remedy exists with respect to those rights/obligations. Here, the purported "remedy" of Sun Products expired long before it commenced suit.

Respondents cite as alternatively controlling authority RCW §23B.14.050(2)(e). Petitioners have already distinguished that statute as inapposite to the present action; and, to the extent that RCW §23B.14.050(2)(e) conflicts with RCW §23.B.14.340, Petitioners have shown conclusively that RCW §23B.14.340 controls (Pet. Cert., pp.9-10).

Respondents speciously assert that "[t]his revised statute retained the post-dissolution remedies of *Pacesetter*...and *Zimmerman*...". (Opp. Brf., p.9). As previously stated, the *Pacesetter* and *Zimmerman* cases were decided under the *former* RCW §23A.28.250. Additionally, Petitioners have shown that the *Pacesetter* and *Zimmerman* cases have been overruled by legislative fiat. (Pet. Cert., pp.7-8).

Respondents further state that:

> RCW §23B.14.340 both permits lawsuits by the corporation within two years of dissolution and lawsuits thereafter brought by the directors, shareholders and officers on behalf of the corporation and in its corporate name. (Opp. Brf., p.9).

This argument has no basis in reason, nor is it supported by the legislative history of the Washington Statute.

This Court need only review the pertinent provisions of the predecessor statute (RCW §23A.28.250 (superseded)) and the successor statute (RCW §23B.14.340) to see that the operative language was significantly modified (Pet. Cert., p.3), as follows:

> RCW §23A.28.250 (superseded), in pertinent part, provides:
>
> The dissolution of a corporation ... by the issuance of a Certificate of Dissolution by the Secretary of State ... shall not take away or impair *any remedy available to or against such corporation*, its directors, officers, or shareholders, for any right or claim existing, or any liability incurred prior to such dissolution if action or

> other proceeding thereon is commenced within two years after the date of such dissolution. Any such action or proceeding *by or against the corporation may be prosecuted or defended* by the corporation in its corporate name. The shareholders, directors and officers shall have the power to take such corporate or other action as shall be appropriate to protect such remedy right or claim. (Emphasis Added).

RCW §23B.14.340, in pertinent part, provides:

> The dissolution of a corporation ... by the issuance of a Certificate of Dissolution by the Secretary of State ... shall not take away or impair *any remedy available against such corporation*, its directors, officers, or shareholders, for any right or claim existing, or any liability incurred, prior to such dissolution if action or other proceeding is commenced within two years after the date of such dissolution. Any such action or proceeding *against the corporation* may be *defended* by the corporation in its corporate name. (Emphasis Added).

The change in the language of the statute is by no mere accident or happenstance. The legislative history of the amended statute provides, unmistakeably, that "affirmative causes of action do not survive dissolution". (Pet. Cert., p.A12, ¶2).

In an attempt to distance themselves as far from this statutory language as possible, Respondents argue:

> The Petitioners quote from a legislative bill summary as if that were the law, when the foregoing language of the statute clearly shows the "summary" to be incorrect. There is no need to review legislative history when the statute is clear. (Opp. Brf., p.10).

Petitioners agree that the statutory language is clear. Respondent Sun Products, a then-defunct Washington corporation, did not commence suit under the former RCW §23A.28.250 within

the 2-year statutory time frame. Further, Respondent Oiness did not move in the District Court to amend the caption[1] to assert the causes of action "as successor to Sun Products" until *after* the Washington statute was amended, by which time the amended statute had *cut off all rights* for Oiness to sue in a representative capacity.

It is clearly necessary that Respondent Sun Products remain as a party to this action in order for there to be an award of lost profits under *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 415 F.2d 1152, 1156 (6th Cir. 1978). In this connection, Respondents urge that:

> Oiness individually and in his representative capacity on behalf of Sun Products met all of the requirements ... to permit the award of lost profits. (Opp.Brf.,pp.10-11).

Immediately after making this statement, Respondents attempt to *blur* the distinction between Respondent Oiness (the individual plaintiff) and Respondent Sun Products (the defunct corporate plaintiff) in an effort to transform a single individual into a full-fledged operating corporation having the "manufacturing and marketing capability to exploit the demand" for the headrest. The essential fact is that, without Respondent Sun Products, Respondent Oiness' right to seek the remedy of patent damages evaporates.

The Colorado District Court at 774 F.Supp. at 1281, 21 USPQ2d at 1657, allowed the suit on behalf of a "successor" to the defunct Sun Products to continue based upon a misapplication the law of the State of Washington. The Federal Circuit Court of Appeals compounded this error by failing to review *de novo* the Colorado District Court's erroneous determination of Washington State Law. This Court remains as Petitioners' last opportunity to seek redress with respect to the Colorado District Court's erroneous determination that Respondent Sun Products retains the capacity to maintain this suit.

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[1] It is to be recalled that the District Court denied this motion.

BEST AVAILA

II

Petitioners Respectfully Request that this Court Not Presume that Appellate Review was Properly Conducted by the Federal Circuit Court of Appeals.

Respondents argue that:

> It should be presumed that an appellate review was properly conducted except where the decision makes it clear that significant error occurred (Opp. Brf., p.11).

Respondents cite no statutory authority nor precedent to support this statement. The decision of the Federal Circuit Court of Appeals below is completely silent with respect to its standard of review of the state law determinations of the Colorado District Court. The only evidence this Court has to determine the Federal Circuit's thought processes is the statement of the Court during oral argument (Pet. Cert., p.11). This evidence clearly shows that the Federal Circuit Court of Appeals merely deferred to the Colorado District Court without legal analysis.

Further, Respondents state:

> "As to questions controlled by state law, however, conflict among circuits is not of itself a reason for granting a Writ of Certiorari." *Richlin v. N.Y. Co.*, 304 U.S. 202, 206 (1938). (Opp. Brf., p.12)

Respondents completely misperceive the nature of the conflict created by the Federal Circuit Court of Appeals as compared to the Regional Circuit Courts of Appeals. The conflict is not as to the insular interpretation of Washington State Law, but rather the standard of review from a district court's *determination* of controlling substantive state law.

Far from presuming that the Federal Circuit Court of Appeals properly conducted its appellate review, the evidence submitted by Petitioners indicates to the contrary.

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III

The Colorado District Court failed to follow 28 U.S.C. §1652 in erroneously applying Washington State law, and the Federal Circuit Court of Appeals compounded this error.

Respondents assert that:

> The decision of the District Court was well founded *on statute* and case law of Washington ... (Opp. Brf., p.13).

The Colorado District Court's determination of Washington State law, 774 F.Supp. at 1281, 21 USPQ2d at 1657 was based on an intermediate appellate decision of the Washington Court which has since been overruled by legislative fiat. In making its erroneous determination of Washington State law, the Colorado District Court did not even mention the predecessor statute (RCW §23A.28.250) nor the statute that applied on the date that the District Court rendered its decision (RCW §23B.14.340). In short, Washington State Law was not properly "regarded as [the] rule[ ] of decision " by the District Court. 28 U.S.C. §1652.

The Federal Circuit Court of Appeals, in its decision below, provides no evidence that it reviewed for itself this erroneous determination of Washington State Law. Had the Federal Circuit done so, the District Court's error would have been corrected.

IV

The Colorado District Court and the Federal Circuit Court of Appeals clearly violated the Tenth Amendment to the United States Constitution.

The determination of the Colorado District Court of the question of Washington State law was plain error. There is no question but that the District Court substituted its view of what the law of the State of Washington should be for that of the legislature of the State of Washington.

The Federal Circuit Court of Appeals did not certify the question to the Washington Supreme Court, nor did it review for itself, *de novo*, whether the Colorado District Court's "substituted

judgment" was in fact correct. At the expense of Petitioners' rights, the Federal Circuit Court of Appeals merely "rubber-stamped" the erroneous determination of Washington State law by the Colorado District Court. Future litigants seeking guidance as to the meaning of the language of the Washington Statute will be misled. As matters now stand, the reported decision of the Colorado District Court, affirmed by the Federal Circuit Court of Appeals, will erroneously imply that *Zimmerman*, *supra.*, remains as good law, when it does not. The spirit of Federalism embodied in the Tenth Amendment to the United States Constitution was designed to prevent such a result, as herein suggested by Respondents.

Conclusion

The judgment of the United States Court of Appeals for the Federal Circuit below is in clear conflict with the Supreme Court and several Regional Circuit Courts of Appeals with respect to the standard of review of a district court's determination of substantive state law. What little evidence there exists with respect to the Federal Circuit's reasoning indicates that it erroneously engaged in a deferential standard of review. Respondents have failed to rebut Petitioners' supported assertions that the Federal Circuit clearly departed from the mandates of 28 U.S.C. §1652 and the Tenth Amendment to the United States Constitution, which prohibit a re-writing by the Federal Judiciary of the statutory scheme of the Washington State legislature. Consequently, Petitioners respectfully request that the Writ of Certiorari sought herein be granted.

Respectfully submitted,

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